

APPENDIX A

IN THE

COURT OF APPEALS OF THE STATE OF NEW YORK

JOSEPH E. SEAGRAM & SONS, INC., et al., Appellants *v.* DONALD S. HOSTETTER et al., Constituting the State Liquor Authority, et al., Respondents.

Decided July 9, 1965.

BERGAN, J. In 1963 in response to malfunctions in the administration of the State's liquor law and public dissatisfaction with controls on the sale of alcoholic beverages, the Governor appointed a Moreland Commission directed to make a "study and reappraisal" of the law.

In appointing the commission the Governor noted that since the enactment of the Alcoholic Beverage Control Law in 1934, soon after the end of prohibition, there had been "no major reappraisal or revision of the law in the light of experience and current social problems and economic conditions".

The commission addressed itself, among other things, to the price of liquor in New York and the effect of price on temperance in the use of liquor. One of the basic assumptions of the statute then in effect was that, if the price of liquor were cheap, its consumption would increase and the policy effected by the statute was to sustain the price.

Former section 101-c of the Alcoholic Beverage Control Law had authorized a manufacturer who was a "brand" owner to fix the minimum retail prices for that brand, for the violation of which the retailer was subject to discipline by the State Liquor Authority (subd. 7). The

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statute (§ 101-b, subd. 3) had for over 20 years also provided for filing price schedules by brand owners and wholesalers.

The commission's studies led it to believe that the assumed favorable relation of high-priced liquor to temperance was chimerical. The prices of liquor in New York were high, but consumption had steadily risen and this did not indicate high prices increased temperance. It found "a greater than average" increase in per capita consumption in New York (Moreland Comm. Report No. 1, p. 3).

The principal benefit from the minimum price requirement for liquor in New York went to the liquor interests. This served "merely", said the commission, "to insure profit margins of the various segments of the industry" (Report No. 3, p. 19, offered as Exhibit E by plaintiffs at Special Term) and "The argument that high prices promote temperance in that they keep liquor out of the hands of those who should not have it" is "unfounded" (*id.*, p. 17).

Its studies showed no correlation between consumption and prices, looking at the experience in States in which prices were high compared with those in which they were low.

It found in effect gross price discrimination against the New York consumer by the industry. It developed that the retail price for a fifth of a well-known brand of liquor was lower in Washington, D. C., than the wholesale price in New York. One brand, for example, cost \$2.85 retail in Washington and \$3.45 wholesale in New York, another \$3.39 and \$4.15 respectively (see Report No. 3, pp. 5, 6).

This report adds: "For almost every fifth of whiskey that he buys, the New York consumer pays 50 cents to \$1.50 more than the price at which it is available in at least seven freer price markets" (p. 3).

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On the basis of these reports the Governor made recommendations to the Legislature (Message, Feb. 10, 1964). He observed that the administration of the State's liquor law had been marked by "periodic instances of corruption and favoritism". He noted the favored position of the liquor industry in an area which was the subject of public regulation and that the Moreland Commission had reported "it is contrary to the public interest to have the regulated industry in such a dominant role". He added that the commission had sought means of "Bringing justice to the consumer by putting to an end the artificial devices whereby the liquor industry has received uniquely beneficial treatment at the consumer's expense."

The Governor also noted that as a result of the distiller-fixed consumer prices under the statute a "surcharge" had been "foisted on New Yorkers" of \$150 million a year over what would have been paid in a free market.

The result of the commission study and the Governor's recommendations was the enactment of a statute by the Legislature (L. 1964, ch. 531) which, among other things, vitally changed the direction of liquor price policy in New York and sought to reduce consumer prices.

This suit is maintained by 62 distillers and wholesalers of alcoholic beverages and some importers against the State Liquor Authority and the Attorney-General to declare the provisions of the 1964 statute invalid. The main attack is directed to section 9 of the statute; the other is directed to certain parts of section 7. The court at Special Term in a comprehensive opinion granted judgment for defendants; the Appellate Division affirmed.

In changing the direction of its policy which had been to prevent prices from going too low by establishing effective devices pursuant to which the liquor industry could in effect fix minimum retail prices on brand liquors, the

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Legislature by section 9 of the 1964 statute set up means which sought to keep down the prices of brand liquors to the consumer. The mechanism is a simple one and it lies technically in the control of the liquor industry. But it is a mechanism to which plaintiffs take vigorous exception on a diversified number of grounds.

The provision is this: On filing the schedules of brand owners' prices to wholesalers, which for 20 years had to be filed monthly under the former provisions of section 101-b, the brand owner or his designee must file an affirmation "that the bottle and case price" to wholesalers in New York "is no higher than the lowest price at which such item of liquor" was sold the previous month to any wholesaler elsewhere in the country or any State or State agency operating a public liquor enterprise (§ 9).

Thus it was sought to end the discrimination by the liquor industry against the New York consumer which, as the commission had found, cost the New York consumer \$150 million a year above that which a free market would have offered.

This change from a favored and protected profit position to a possibly sparse profit situation may make it economically difficult for the liquor industry. If it does it is within the competence of the New York Legislature to make it that way. Even without article XXI of the Amendments to the United States Constitution, New York could end the liquor traffic within its borders entirely. The State of Mississippi, for example, prevents the plaintiffs or anyone else from selling liquor there and no one doubts its power to do so. But the Twenty-first Amendment spells out an additional specific and federally protected right of each State to eliminate as well as regulate the liquor traffic within its borders (*Mahoney v. Triner Corp.*, 304 U. S. 401).

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A long history of regulation, control, price fixing, place of time and sale setting, and outright extinction lies behind the liquor business in this country since Colonial times, and it is too late today to suggest that the rights of those who choose to engage in it are on a constitutional or legal parity with the rights of people who trade in bicycles, or cosmetics, or furniture.

If the conditions set down by the Legislature are economically impossible for the liquor industry to meet, it will have to accept this impossibility. But we are of opinion they are not economically impossible and that the effect of the 1964 statute will be to reduce liquor profits and pass the benefit of some of them on to New York consumers.

In effect the dependence of the New York price on the maximum price of the distiller for his brand elsewhere is to tie the price in this State into a national price. There is nothing unreasonable about that. It is not an interference with interstate commerce. The effect is on what the distiller charges here and is an effect closely associated with the sale and distribution of liquor within the State.

That it reflects and depends on events outside the State does not condemn it. It could as well have been tied into the national average price of liquor or the national cost of living index. It is a device to end a demonstrated discrimination against the New York consumer and it is a device within the power of the State to employ in this regulated activity.

There is in the record proof offered at Special Term by plaintiffs in an exhibit (Exhibit C) attached to the affidavit of Thomas F. Daly) consisting of excerpts of the testimony before a legislative committee of Judge LAWRENCE E. WALSH, the Moreland Commissioner, who personally opposed the kind of regulation prescribed by section 9, in which the statement is made that in the liquor

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industry "the whole sum total of that relationship averages out to a price that is average across the country".

He cited Pennsylvania, a monopoly State, "the largest purchaser of liquor in the world * * * \$400,000,000 worth of liquor a year—one customer" as being an example of a customer who insists "on the lowest price that the distiller offers anywhere in the country".

In the light of this kind of national marketing situation, the actual difficulty of the distiller in seeing to it that the New York buyer pays no more than "the lowest price" elsewhere seems greatly overstressed.

Under section 9 the distillers themselves control the base price since they fix the lowest price elsewhere. If its effect on New York is too low a price they have it within their power to raise the lowest price elsewhere. The industry must absorb any differential cost in doing business as one of the incidents to a highly regulated industry. The incidental effect of this on prices in another State does not invalidate the New York statute.

The requirement of section 9 is not, indeed, unusual in concept and those States which have State liquor monopolies, we are told, require the distillers to warrant that the price charged the State monopoly for brand liquors is no higher than the price charged in other States. Thus we think the price regulation in the 1964 statute is neither impossible of compliance nor unreasonable.

It is thoroughly settled that when it comes to the regulation of liquor traffic a wide area of public power may be exercised in plenary fashion by State governments without Federal interference either under the commerce clause or under the equal protection provisions of the Constitution.

A leading decision is *State Bd. v. Young's Market Co.* (299 U. S. 59) where the court in an opinion by Mr. Justice BRANDEIS sustained a State statute imposing a license fee

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for the privilege of importing beer from other States against the argument that it violated both the commerce clause and the equal protection clause.

In the same direction is *Mahoney v. Triner Corp.* (304 U. S. 401, *supra*); again in an opinion by Justice BRANDEIS the court sustained a Minnesota statute imposing additional processing conditions on liquor coming from other States, a statute which the court noted "clearly discriminates in favor of liquor processed within the State against liquor completely processed elsewhere" (p. 403).

Similarly discriminating statutes in Michigan which prohibited dealers in beer there from selling beer manufactured in other States which in turn discriminated against beer manufactured in Michigan (*Brewing Co. v. Liquor Comm.*, 305 U. S. 391) and to the same effect in Missouri (*Finch & Co. v. McKittrick*, 305 U. S. 395) were each sustained. The statute before us could scarcely be deemed to have as much impact on the plaintiffs' Federal rights as these.

In *Ziffrin, Inc. v. Reeves* (308 U. S. 132, 138) a Kentucky statute confining the transportation of liquor to licensed common carriers was sustained, with Mr. Justice McREYNOLDS propounding the question: "Having power absolutely to prohibit manufacture, sale, transportation, or possession of intoxicants, was it permissible for Kentucky to permit these things only under definitely prescribed conditions?" And making the answer: "Former opinions here make affirmative answer imperative."

As the Appellate Division opinion noted, nothing in the later decisions of the court upon which appellants mainly rely suggests that the basic power of New York to control the liquor traffic has been impaired. The holding of *United States v. Frankfort Distilleries* (324 U. S. 293) is merely that liquor producers, wholesalers and retailers may not conspire unlawfully to fix prices in viola-

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tion of the Sherman Anti-Trust Act (U. S. Code tit. 15, § 1 *et seq.*). Nothing in that decision sustains any part of plaintiffs' contention.

And *Hostetter v. Idlewild Liq. Corp.* (377 U. S. 324) and *Department of Revenue v. James Beam Co.* (377 U. S. 341) are irrelevant to the case before us. The principles announced in the earlier cases were re-enforced in 1958 in the denial of the application of California to file a bill of complaint against Washington (*California v. Washington*, 358 U. S. 64).

On the general exercise of State powers in matters affecting the welfare of a State and its people, liquor aside, see *Hoopeston Co. v. Cullen* (318 U. S. 313); *Huron Cement Co. v. Detroit* (362 U. S. 440); *Osborn v. Ozlin* (310 U. S. 53).

The provisions of section 9 are not transformed into an "antitrust measure" in conflict with the supremacy clause on the basis of plaintiff's conception that the statute is not "a device to promote temperance"; nor are they for similar reasons in conflict with the Robinson-Patman Act (U. S. Code, tit. 15, § 13 *et seq.*). It is a strained argument to make, as plaintiffs do, that liquor is the equivalent of an unlawful conspiracy to violate the Sherman Act; and it is almost equally strange to say that, because New York tries to correct an evil in the sale of liquor by providing price criteria operative here, it "will * * * impair * * * the successful operation of alcoholic beverage control laws in other states".

Plaintiffs also attack the validity of portions of section 7 of the 1964 statute which require that filed price schedules show the bottle and case price paid by a retailer, and the portion of the section which prohibits sale or purchase by a wholesaler unless schedules are filed by brand owners "irrespective of the place of sale or delivery".

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It is said by appellants that those requirements "can only mean" that sales by brand owners "in every state" must be filed with the New York Authority.

The statute is concerned with New York practices and, if the sales in other States have no relevancy to New York enforcement, the statute permits the Liquor Authority for good cause to waive the general prohibition against sales to wholesalers in the absence of such schedules. It would be reasonable to expect that the statute would be administered consistently with its sole purpose to regulate the intrastate sale of liquor.

Throughout the argument of plaintiffs on constitutional and other issues runs the thread of their contention that the 1964 statute is not suited to the promotion of temperance and hence the main justification of a valid regulation of liquor is lost.

In summarizing their position in a reply brief plaintiffs say: "At issue here is whether Section 9 of Ch. 531 affirmatively promotes temperance". As to what best promotes temperance among the people of New York it seems preferable to take the opinion of the Governor and the Legislature rather than that of the liquor industry.

The order should be affirmed, with costs.

Chief Judge DESMOND (dissenting). Of plaintiffs' several serious and impressive arguments against the validity of sections 7 and 9 of chapter 531 of the Laws of 1964, one remains unanswered and to my mind unanswerable. It comes down to this: mandatory establishing of minimum prices for sales by bottle or case of "brand name" alcoholic beverages is beyond the power of our State legislation, is an unconstitutional (U. S. Const., 5th and 14th Amdts.; N. Y. Const., art. 1, § 6) taking of private property without due process or compensation, and is not justified as a police power exercise since it is not neces-

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sary for or related to the health, safety, morals or welfare of the State's inhabitants or required by any emergency. Bringing New York State liquor prices into line with those of comparable localities may accord with some concepts of fairness, and our people may have cause to complain about marketing and pricing practices of plaintiffs which are said to result in the charging of premium prices in the package stores of New York State. But we are talking now about constitutional protections against arbitrary interferences by government with free price markets. Statutory price controls on food, housing accommodations or other essentials of life is a valid exercise of the State's far-ranging police power which is born out of public needs (*Nebbia v. New York*, 291 U. S. 502, 525 *et seq.*). Those items are regulated as to price because they are among the "great public needs" referred to in *People v. Nebbia* (262 N. Y. 259, 270). But even the police power is limited and the courts have the same duty to nullify unconstitutional legislative acts as to uphold statutes which satisfy or tend to satisfy or may reasonably be expected to satisfy some health, safety or welfare need. If no such relevance is discoverable, a statute infringing on the constitutionally protected rights of private property in price-fixing or similar restraints must fall (*Defiance Milk Prods. Co. v. Du Mond*, 309 N. Y. 537; *Trio Distr. Corp. v. City of Albany*, 2 N. Y. 2d 690; *Loblaw, Inc. v. New York State Bd. of Pharmacy*, 11 N. Y. 2d 102). In each of those three cases we held a statute violative of the due process because it needlessly and arbitrarily forbade an otherwise valid business practice.

No one will question the traditional rights of the States (taken away by the Eighteenth Amendment but restored by the Twenty-first) under their inherent police power to prohibit, restrain or regulate the manufacture, sale and use of intoxicants (*Matter of Trustees of Calvary Presbyt.*

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Church v. State Liq. Auth., 245 App. Div. 176, 178, *affd.* 270 N. Y. 497; *Mahoney v. Triner*, 304 U. S. 401). The New York Legislature has power to enact a variety of laws calculated to suppress intemperance or to minimize the known evils of the liquor traffic, since the trade is one as to which there is a recognized public interest. But "police power" is not a magic incantation to frighten off judicial investigation into the constitutionality of statutes. The State of New York could completely outlaw the sale of liquor but, having chosen instead to regulate it, the restrictions and requirements can be such only as are necessary to protect public safety, health and morals from the evils, known or apprehended, of the trade. The State's licensees may be subject to the strictest supervision and control (as scores of appellate court decisions in this State attest) but such supervision and control must at least tend to preserve public order and discourage the intemperate use of alcohol. No one has yet told us how any of these lawful purposes could be accomplished or furthered by forcing liquor prices down to the bottom level found anywhere in the United States. To promote temperance by making intoxicants cheaper is like trying to minimize the dangers of excessive smoking by abolishing cigarette taxes.

This statute cannot be saved by recourse to the familiar aphorisms about presuming a statute's constitutionality or presuming that investigation has shown necessity, or avoiding the substitution of a court's judgment for a Legislature's, or the like. Those who attack a price-fixing law have the burden of showing its unconstitutionality beyond any reasonable doubt (*Lincoln Bldg. Assoc. v. Barr*, 1 N. Y. 2d 413) but that burden is met when the attackers show as they do here that the only reason suggested or available for its enactment—that is, eliminating "price discrimination" against our State's residents has no relationship to any

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public need or evil of the kind which justifies use of the police power (*Defiance Milk Prods. Co. v. Du Mond*, 309 N. Y. 537, 540-541, *supra*). Indeed, in section 8 of those 1964 amendments to section 101-b of the Alcoholic Beverage Control Law, the Legislature has forthrightly told us that its purpose and interest was solely to reduce the prices charged for brand-name liquor in this State. That was a long retreat from the old announced policy (see old § 101-c as enacted in 1950) of promoting temperance by eliminating price wars, by prohibiting sales below announced minima and by mandating resale price maintenance. It is a *non sequitar* that, since artificially jacking up the prices under earlier statutes did not promote temperance, forcing them down to the lowest levels in the whole country will be a step toward moderation in use.

It is suggested that we should respect and accept the judgment of the Legislature and the Governor that price limitation will further temperance. But the assumption that such was the purpose runs against the declared fact. Neither the Governor nor the Legislature ever offered such a vain argument, and we must remember that sections 7 and 9 were not among the recommendations of the distinguished Moreland Act Commissioners appointed by the Governor. Temperance is a laudable objective and a proper State purpose but no one has the temerity to assert that cut-price liquor cuts down drinking. Therefore, it follows of absolute necessity that these amendments have nothing to do with the State policy written into section 2 of the State Alcoholic Beverage Control Law right after repeal of National Prohibition: "to regulate and control the manufacture, sale and distribution within the state of alcoholic beverages for the purpose of fostering and promoting temperance in their consumption and respect for and obedience to law."

Even if these statutes could survive Federal constitutionality tests they are void for arbitrariness under our own

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decisions such as *Defiance Milk Prods. Co. v. Du Mond* (309 N. Y. 537, *supra*); *Trio Distr. Corp. v. City of Albany* (2 N. Y. 2d 690, *supra*); *Grove Hill Realty Co. v. Ferncliff Cemetery Assn.* (7 N. Y. 2d 403, 410), and *Loblaw, Inc., v. New York State Bd. of Pharmacy* (11 N. Y. 2d 102, *supra*). Police power statutes under the New York State Constitution are valid only if the legislation is addressed to a legitimate end and, also, if the measures taken are reasonable and appropriate to that end (*Matter of People [Tit. & Mtge. Guar. Co.]*, 264 N. Y. 69, 83)—that is, such a statute must be reasonably related and applied to some actual and manifest evil". (*Defiance Milk Prods. Co. v. Du Mond*, *supra*, p. 541; *Twentieth Century Assoc. v. Waldman*, 294 N. Y. 571, 580, app. dismd. 326 U. S. 697; *East N. Y. Sav. Bank v. Hahn*, 293, N. Y. 622, 627 affd. 326 U. S. 230; *Matter of Department of Bldgs. of City of N. Y. [Philco Realty Corp.]*, 14 N. Y. 2d 291, 297.) The only "evil" against which this legislation is directed is found, apparently, in the fact that some people somewhere in this country under other unknown and uninvestigated conditions buy liquor more cheaply than we do. If this be good law, similar statutes may be passed as to any sale-licensed commodity.

I do not, although I do not discuss them at length, overlook a number of other troublesome aspects of these amendments. These difficulties may be summed up by the statement that it is wholly arbitrary to force New York State liquor prices down to the lowest level prevailing anywhere in America, despite higher license fees charged in this State, despite higher wages and salaries here (and conversely a small volume of sales by some of the distributors-plaintiffs), despite the fact that abnormally low prices somewhere in the country may be due to temporary conditions totally unrelated to New York State prices, and despite the predictable and remarkable result that the distillers now may (or must) raise prices elsewhere in order

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to reap even a better harvest in the enormous New York State market.

The judgment should be reversed and judgment directed for plaintiffs as demanded in the complaint, with costs in all courts.

Judges DYE, VAN VOORHIS and SCILEPPI concur with Judge BERGAN; Chief Judge DESMOND dissents and votes to reverse in an opinion in which Judges FULD and BURKE concur.

Order affirmed.

APPENDIX B
SUPREME COURT
APPELLATE DIVISION
THIRD JUDICIAL DEPARTMENT

May 13, 1965.

JOSEPH E. SEAGRAM & SONS, INC. et al.,
Appellants,
v.

DONALD S. HOSTETTER et al., Constituting the State Liquor
Authority, and LOUIS J. LEFKOWITZ, Attorney General
of the State of New York,
Respondents.

Per Curiam.

APPEAL (1) from so much of an order of the Supreme Court at Special Term as denied plaintiffs' motion for a preliminary injunction and granted defendants' cross motion for summary judgment awarding declaratory judgment, as demanded in the counterclaim, that certain acts amendatory of the Alcoholic Beverage Control Law are constitutional and otherwise valid, and (2) from the judgment entered upon said order. (Opinion: --- Misc 2d ----) MOTION for a temporary restraining order.

The action is brought by distillers, importers and wholesalers of liquor sold in New York for judgment (1) declaring that the provisions of section 9 of chapter 531 of the Laws of 1964, amending subdivision 3 of section 101-b of the Alcoholic Beverage Control Law, and certain of the provisions of section 7 of said chapter, amending paragraph (a) of subdivision 3 of section 101-b of the same act, are invalid as violative of the commerce and

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supremacy clauses of the Constitution of the United States (U. S. Const., art. 1, § 8, cl. 3; art. VI, cl. 2) and as violative, also, of the due process and equal protection clauses of the Constitutions of the United States and the State of New York (U. S. Const., 14th Amdt., § 2; N. Y. Const., art. I, §§ 6, 11), and (2) enjoining the imposition of penalties for failure of compliance with such allegedly invalid provisions.

Appellants' many-pronged attack is directed principally to the provisions requiring, in substance, that each distiller and wholesaler offer New York purchasers in respect of each brand sold by him a price no higher than the lowest price at which such item was sold elsewhere in the United States, as shown by schedules and affirmations required to be filed by him.

The case thus involves important constitutional questions respecting legislation of social consequence and of wide application; it is well and thoroughly briefed and is presented upon an adequate record; it will, most likely, be further reviewed; and under all these circumstances we deem it the function of this intermediate appellate court to reach its determination promptly and to state it succinctly and without elaboration.

The legislative policy sought to be effectuated by the amendments in dispute was declared to be, among other things, to foster price competition, to eliminate discrimination against New York consumers and "to forestall possible monopolistic and anti-competitive practices designed to frustrate the elimination of such discrimination", price discrimination and favoritism being found "contrary to the best interests and welfare of the people of this state". (L. 1964, ch. 531, § 8.)

Neither in the record nor in appellants' argument do we find a substantial basis for the assertion that equal

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protection has been denied. In the light of the legislative history and studies and, so far as applicable, the studies and reports of the Moreland Act Commission, and upon our finding that the strong supportive presumptions have not been overcome, we conclude that the enactment constitutes a valid exercise of the police power and effects no deprivation of due process.

Appellants argue forcefully that the maximum price provisions of the amendments contravene the Robinson-Patman Act (U. S. Code, tit. 15, §§ 13 *et seq.*) and the Sherman Act (U. S. Code, tit. 15, §§ 1-7), and thus are violative of the supremacy clause and that the challenged amendments offend the commerce clause as well. The complete answer is, we believe, that the legislation lies well within the area of liquor traffic regulation in which, under the Federal Constitution, effective control may be exercised by the States. (U. S. Const., 21st Amdt., § 2; *State Bd. of Equalization v. Young's Market Co.*, 299 U. S. 59; *Mahoney v. Joseph Triner Corp.*, 304 U. S. 401; *Indianapolis Brewing Co. v. Liquor Control Comm.*, 305 U. S. 391; *Finch & Co. v. McKittrick*, 305 U. S. 395). The later authorities, upon which appellants principally rely (see, e.g., *United States v. Frankfort Distilleries*, 324 U. S. 293; *Hostetter v. Idlewild Bon Voyage Liq. Corp.*, 377 U. S. 324; *Department of Revenue v. James B. Beam Distilling Co.*, 377 U. S. 341), seem readily distinguishable from the older cases, above cited, and from the case before us. In *Frankfort* was involved a criminal prosecution, which the Court held (p. 299) was not barred by the 21st Amendment, which "has not given the states plenary and exclusive power to regulate the conduct of persons doing an interstate liquor business outside their boundaries"; and the Court was careful to point out (p. 299) that the Sherman Act "is not being enforced in this case in such manner as to conflict with the law of

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Colorado." Unlike the case before us, neither *Idlewild* nor *Beam* concerned an attempt by a State to exert internal control, within the ambit of the 21st Amendment, but, rather, involved taxing procedures long recognized as illegal.

Appellants' remaining contentions seem to us unsubstantial and do not require discussion.

Judgment affirmed, with costs. Motion for temporary restraining order denied, without costs. Application for permission to appeal to the Court of Appeals granted, without costs.

GIBSON, P. J., HERLIHY, TAYLOR, AULISI and HAMM, JJ., concur.

APPENDIX C

SUPREME COURT OF THE STATE
OF NEW YORK

COUNTY OF ALBANY

JOSEPH E. SEAGRAM & SONS INC., THE HOUSE OF SEAGRAM, INC., STITZEL-WELLER DISTILLERY, INC., THE PADDINGTON CORPORATION, HIRAM WALKER INCORPORATED, GOODERHAM & WORTS LIMITED, JAS. BARCLAY & Co., LIMITED, W. A. TAYLOR & COMPANY, HIRAM WALKER DISTRIBUTORS, INC., THE AMERICAN DISTILLING COMPANY, McCORMICK DISTILLING COMPANY, THE FLEISCHMANN DISTILLING CORPORATION, MR. BOSTON DISTILLER INC., THE VIKING DISTILLERY, INC., JAMES B. BEAM DISTILLING COMPANY, JAMES B. BEAM IMPORT CORPORATION, SCHENLEY INDUSTRIES, INC., AFFILIATED DISTILLERS BRANDS CORP., KNICKERBOCKER LIQUORS CORP., BARTON DISTILLING COMPANY, BARTON DISTILLERS IMPORT CORPORATION, JULIUS WILE SONS & COMPANY, INC., BACARDI IMPORTS, INC., AUSTIN NICHOLS & COMPANY, INC., CANADA DRY CORPORATION, BEUBLEIN INC., McKESSON & ROBBINS, INC., NATIONAL DISTILLERS AND CHEMICAL CORPORATION, PUBLICKEE DISTILLERS PRODUCTS, INC., WAYNE LIQUOR CORP., BROWN-FORMAN DISTILLERS CORPORATION, GLENMORE DISTILLERIES COMPANY, A. SMITH BOWMAN DISTILLERY INC., "21" BRANDS, INC., STAR HILL DISTILLING COMPANY, SCHIEFFELIN & COMPANY, ALPINE WINE & LIQUOR CORP., BEN PERLOW LIQUOR CORP., BISON LIQUOR Co., INC., BLUE CREST WINE AND SPIRIT CORP., BONNY DISTRIBUTING Co., INC., CAPITAL DISTRIBUTORS CORP., CARDINAL DISTRIBUTORS INC., COLONY LIQUOR DISTRIBUTIONS, INC., DISTILLED

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BRANDS, INC., EBER BROS. WINE & LIQUOR CORP., ELMIRA TOBACCO CO., INC., EMPIRE LIQUOR CORP., GRAVES & RODGERS, INC., M. LICHTMAN & CO., INC., MAJOR LIQUOR DISTRIBUTORS INC., MONARCH LIQUOR CORP., MULLEN & GUNN, INC., PEERLESS IMPORTERS CORP., RAMAPO WINE & LIQUOR CORPORATION, ROCHESTER LIQUOR CORPORATION, RODGERS LIQUOR CO., INC., S & K WINE & LIQUOR CORP., STANDARD FOOD PRODUCTS CORP., STANDARD WINE & LIQUOR CO., INC., STAR INDUSTRIES INC., UNIVERSAL LIQUOR CORP.,

Plaintiffs,

against

DONALD S. HOSTETTER, Chairman, JOHN C. HART, WILLIAM H. MORGAN, BENJAMIN H. BLACOM, ROBERT E. DOYLE, constituting the State Liquor Authority and LOUIS J. LEFKOWITZ, Attorney General of the State of New York,

Defendants.

Supreme Court, Albany County Special Term,

December 28, 1964

Calendar # 10-241

JUSTICE ELLIS J. STALEY, JR., presiding

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STALEY, JR., J.:

This is a motion for an order restraining the defendants pending the determination of the issues in this action from:

1. Requiring plaintiffs to comply in any manner with any part of section 9, ch. 531 of the Laws of 1964.

2. Requiring those plaintiffs who sell their brands of liquor to wholesalers located in other states as well as to wholesalers in the State of New York to file a schedule of prices at which such liquor is sold to wholesalers in states other than New York "irrespective of the place of sale or delivery" as required by section 7, ch. 531 of the Laws of 1964.

3. Requiring plaintiffs to include in their schedule of prices filed pursuant to section 101-b of the Alcoholic Beverage Control Law the "net bottle and case price paid by seller" as required by section 7, ch. 531 of the Laws of 1964.

A cross motion is made by the defendants for an order dismissing the complaint herein or, in the alternative, for judgment declaring section 9 of ch. 531 of the Laws of 1964 and section 7, subdv. 3(a) of ch. 531 of the Laws of

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1964 to be in all respects constitutional and valid. Section 7 and section 9, as herein referred to, in each instance shall mean section 7 and section 9 of ch. 531 of the Laws of 1964.

Section 9 added new paragraphs (d), (e), (f), (g), (h), (i), (j) and (k) to subdv. 3 of section 101-b of the Alcoholic Beverage Control Law. Section 7 enacted certain amendments to subdvs. 2, 3 and 4 of section 101-b and added new subdv. 6 to said section.

The provisions of section 7 require monthly schedules of brand owners', distillers' or manufacturers' bottle and case prices and discounts to wholesalers, as well as the net bottle and case price paid by the seller and of wholesalers' prices and discounts to retailers. The sale of liquor or wine to or by a wholesaler or retailer is prohibited unless the required schedules are filed and, in the case of a wholesaler, such prohibition applies irrespective of the place of sale or delivery. Schedules are not required to be filed for an item under a brand owned exclusively by one retailer and sold at retail within the state exclusively by such retailer.

Discrimination in price or discounts and the granting of discounts other than as provided in the section is declared to be unlawful. Penalties are also provided for making any sale or purchase in violation of the provisions of the section or for making a false statement in any schedule or for failing or refusing to comply with the provisions of the section.

In essence section 9 requires that, in addition to the schedules required by section 7, there must be filed an affirmation by the brand owner, or by the wholesaler designated as agent for the purpose of filing the schedule if the owner of the brand is not licensed by the liquor authority that the bottle and case price of liquor to wholesalers set forth in the schedule is no higher than the

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lowest price at which such item was sold by such brand owner or such wholesaler or any related person to any wholesaler anywhere in any other State of the United States or in the District of Columbia or to any state which owns and operates retail liquor stores in the month immediately preceding the month in which the schedule is filed. A similar affirmation is required concerning sale to retailers. In the event an affirmation is not filed with respect to an item of liquor the schedule for which the affirmation is required is deemed invalid and such item may not be sold to or purchased by a wholesaler during the period covered by the schedule. Provision is made for determining the lowest price for which any item was sold elsewhere and the making of a false statement in an affirmation is declared to be a misdemeanor.

The intent of the Legislature in making these amendments is set forth in section 8 which provides as follows:

"In enacting section eleven of this act, it is the firm intention of the legislature (a) that fundamental principles of price competition should prevail in the manufacture, sale and distribution of liquor in this state, (b) that consumers of alcoholic beverages in this state should not be discriminated against or disadvantaged by paying unjustifiably higher prices for brands of liquor than are paid by consumers in other states, and that price discrimination and favoritism are contrary to the best interests and welfare of the people of this state, and (c) that enactment of section eleven of this act will provide a basis for eliminating such discrimination against and disadvantage of consumers in this state. In order to forestall possible monopolistic and anti-competitive practices designed to frustrate the elimination of such discrimination and disadvantage, it is hereby further declared that

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the sale of liquor should be subjected to certain further restrictions, prohibitions and regulations, and the necessity for the enactment of the provisions of section nine of this act is, therefore, declared as a matter of legislative determination."

The first two causes of action of the complaint seek a declaratory judgment determining (1) that section 9 is unconstitutional and void in that it deprives the plaintiffs named in the first cause of action of liberty and property without due process of law; it is an arbitrary, capricious and unreasonable exercise of the state's police power; is inconsistent with the declared policy of the Alcoholic Beverage Control Law as expressed in sections 2 and 101-b(1) of that law; it will not serve to cure the possibility of monopolistic and anti-competitive practices; it contravenes the terms and policy of the Sherman Act, 15 U.S.C. sections 1-7; it is in direct conflict with the Robinson-Patman Act, 15 U.S.C., sections 13(a), 13(b) and 21(a); it violates the Constitution of the United States by interfering with commerce among the states; it violates the Constitution of the State of New York and the Constitution of the United States in that it is discriminatory; (2) that section 7, Subdv. 3(a) is unconstitutional and void in that it violates the Constitution of the United States by interfering with commerce among the states and with foreign commerce and deprive the plaintiffs of property without due process of law; (3) that section 9(f) violates the Constitution of the State of New York and the Constitution of the United States in that it deprives the plaintiff named in the second cause of action of liberty and property without due process of law; it is an arbitrary, capricious and unreasonable exercise of the state's police power; it is likely to cause unwitting violations of the laws of New

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York and of other states and of the federal anti-trust laws; it is vague and indefinite.

The third and fourth causes of action of the complaint seek an injunction enjoining and restraining the defendants and their successors from imposing any sanctions or penalties for failure to submit the affirmations and verifications required by section 9 and for failure to file the prices and schedules required to be filed by section 7 on the ground that said sections are unconstitutional and void.

The cross motion by the defendants for judgment declaring section 9 and section 7, subdv. 3(a) to be, in all respects, constitutional and valid is, in effect, a motion for summary judgment.

In weighing a challenge of unconstitutionality of a statute the Courts observe the legal principles; that a legislative enactment carries with it an exceedingly strong presumption of constitutionality; that every intendment is in favor of the statute's validity; that the heavy burden of demonstrating unconstitutionality beyond a reasonable doubt rests upon the one who attacks a statute as unconstitutional and that only as a last unavoidable result do Courts strike down a legislative enactment as unconstitutional. (*I.L.F.Y. Co. v. Temporary State Rent Comm.*, 10 N. Y. 2d 263; *Wiggins v. Town of Somers*, 4 N. Y. 2d 215; *Lincoln Bldg. Assoc. v. Barr*, 1 N. Y. 2d 413; *New York State Thruway Authority v. Ashley Motor Court*, 12 A D 2d 223, *affd.* 10 N. Y. 2d 151; *Matter of Roosevelt Raceway Inc. v. Monaghan*, 9 N. Y. 2d 293; *Matter of Ahern v. South Buffalo Ry. Co.*, 303 N. Y. 545, *affd.* 344 U. S. 367; *Martin v. State Liquor Authority*, 43 Misc. 2d 682, *affd.* 15 N. Y. 2d 707.)

The judgment of the Courts will not be substituted for that of the Legislature to determine whether the legislation will accomplish the desired end or can be effectively administered.

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Courts no longer employ the due process clause of the Constitution to invalidate State Laws regulatory of business and industrial conditions merely because such laws are deemed unwise or improvident. (*Williamson v. Lee Optical Co.*, 348 U. S. 483; *Gail Turner Nurses Agency, Inc. v. State of New York*, 17 Misc. 2d 273.)

Nor will the Court sit as a superlegislature to weigh the wisdom of each enactment brought before it, or decide whether policy which it expresses offends the welfare of a particular group. (*Day-Brite Light, Inc. v. Missouri*, 342 U. S. 421; *Gail Turner Agency v. State of New York*, *supra*.)

Nor are legislative enactments rendered invalid as a denial of due process or equal protection under the law because they impose financial hardship, result in reduced income or make it impossible for some to continue in a particular business. (*California Automobile Assn. v. Maloney*, 341 U. S. 105; *Breard v. Alexandria*, 341 U. S. 622; *Day-Brite Light, Inc. v. Missouri*, *supra*; *Gail Turner Agency v. State of New York*, *supra*.)

The Legislature is also presumed to have investigated the subject matter of the statute and found facts to support the legislation. (*Martin v. State Liquor Authority*, *supra*.) In this instance the Legislature, in addition had before it, when it enacted ch. 531 of the Laws of 1964, the Study Papers and Reports of the Moreland Commission. Being an enactment under the police power of the state, the strongest presumption of validity attaches to ch. 531 of the Laws of 1964 and the fact that it causes or might cause an economic hardship to those whom it affects is no argument against its constitutional validity, if it is an otherwise valid exercise of the state's police power. (*N. H. Lyons & Co., Inc. v. Corsi*, 3 N. Y. 2d 60.)

Plaintiffs attack ch. 531 on the basis that it deprives them of liberty and property without due process of law in

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violation of the Constitutions of the State of New York and of the United States is contained in paragraphs 53, 90 and 91 of their complaint. In essence these paragraphs allege economic hardships, possible reduced profit margins, expenditures for new equipment, possible difficulty in increasing prices and difficulty in competing in other States. These allegations, even if proven, have no bearing on the constitutionality of the statute. (*California Automobile Assn. v. Maloney, supra; Breard v. Alexandria, supra; Day-Brite Light, Inc. v. Missouri, supra; Gail Turner Agency v. State, supra.*)

Paragraphs 54, 90 and 94 of the plaintiffs' complaint allege that section 9 is an arbitrary, capricious and unreasonable exercise of the state's police power in that the term related person as defined in section 9 is vague; plaintiffs have no power to compel related persons to furnish them with information; price differentials are limited to state gallonage taxes or fees; it is impossible for plaintiffs to determine in any given month the prices at which brands sold by them in New York are sold to wholesalers and/or retailers throughout the United States and the District of Columbia; it is impossible for plaintiffs to determine what is meant by inducements of any kind whatsoever.

The choice of measures is for the Legislature who are presumed to have investigated the subject and to have acted with reason not from caprice. "Legislation passed in the exercise of the police power must be reasonable in the sense that it must be based on reason as distinct from being wholly arbitrary or capricious, but when the legislature has power to legislate on a subject, the courts may only look into its enactment far enough to see whether it is in any view adapted to the end intended. If it is, the court must give it effect, however unwise they may regard it, or however much they might, if given the choice,